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A Letter on The Railroad Problem

THE RAILROAD PROBLEM
A Letter on

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OFFICES OF
CLARK & LA ROE
AMERICAN NATIONAL BANK BUILDING
WASHINGTON, D. C.

March 22, 1923.

HON. GEO. W. ANDERSON,
U. S. Court Rooms, Boston, Mass.

My dear Judge Anderson:

Following your kind suggestion I read your statement before the Joint New England Railroad Committee. It is good to know that your judicial isolation has not withdrawn you entirely from the world of transportation. Your statement is most interesting and it shows, as usual, a splendid command of the transportation problem. I regret to say that I am unable to agree with certain important conclusions which you reach, and I take the liberty of setting forth below some of the points of difference between us.

DEFINITION OF TRANSPORTATION

You begin your able presentation with a more or less unsuccessful attempt to distinguish between "transportation" and "industry." You say that a factory really changes the intrinsic value of commodities by converting raw materials into finished products, but that "change of location adds no intrinsic value." I confess that this conclusion is strongly at variance with my understanding of elementary economic principles. What would be the economic value of California oranges if they had to remain in California? What would Florida strawberries be worth this time of year if they had to remain in Florida? How much profit would the New England shoe manufacturers make if the shoes could not be shipped west of the Hudson River? Why does New England clamor for coal all winter long if the coal is just as valuable at the mines as it is in Boston, and if "change of location adds no inherent value" to it?

Nor is your attempt to picture our railroads merely as "highways" entirely free from difficulty. A "highway" is a lifeless sort of a thing—a mere roadbed over which men may travel or haul their wares if they please to do so. A railroad is much more than a highway. It is an industry which operates a rail highway. It has a management which supplies locomotives and cars to haul the nation's commerce. It has an operating department charged with the important duty of hauling freight and passengers. It bends every effort toward performing the service of transportation with the greatest possible efficiency and economy. How, then, can a railroad be pictured merely as a highway? Your conclusion that the railroads are merely highways and that they add no "intrinsic" value to the commodities transported by them leads you to the unsound conclusion that they are not entitled to "gain profits" from the service rendered by them. Railroad transportation is an *industry*, second in importance only to agriculture, and your attempt to picture it as a lifeless highway and an economic parasite can hardly be considered as contributing much of value to the general fund of economic

knowledge. Unsound economic reasoning is especially unfortunate at a time when members of the "farm bloc" and others more devoted to special interests than to the welfare of the country, would even deprive the carriers of a fair return. A man who invests \$1,000 in a good railroad is as much entitled to a fair return on his investment as a man who invests \$1,000 in a good farm, and any reasoning that leads to a different conclusion is unfair, unsound and un-American.

EMPTY HAULS

It is quite true, as you suggest on page 1289 of your paper, that there are wasteful routes and empty hauls. And you are quite right that it is unnecessary and unreasonable to send cars home for repairs in all instances. Your statement is so general in character, however, that certain matters must be considered in connection with it. A very large percentage of the empty hauls can not possibly be eliminated. For example, there is a heavy movement of coal, as you know, from the West Virginia mines to Hampton Roads, much of this coal being en route to New England. Can you suggest a return tonnage for these coal cars to the mines? At this time of year fruits and vegetables are moving from Florida to New England in refrigerator cars. What would you send back from New England to Florida in those cars? When grain is flowing in large volume to the Gulf ports it is far from easy to suggest a return loading from the Gulf ports to the grain fields. As long as traffic is seasonal, and as long as the basic commodities are produced in so many widely-scattered sections, the empty hauling of freight trains is inevitable.

Nor may we safely conclude that it is necessarily an economic waste to haul shoes from New England to the west while shoes are moving from the west to the east. In any event it is not fairly to be pictured as an economic waste for which the railroads are responsible. Would it be a wise policy to require that all of New England's shoes be sold in the east and that all shoes manufactured in St. Louis be sold in the Mississippi Valley? Should you like to have the task of defining the territory of distribution for each group of shoe manufacturers? Do you think it would be sound policy to define by law such territory of distribution?

The suggestion throughout your statement that many routes are wasteful and unnecessary is also subject to important qualifications. Ill-informed persons think that it is wasteful to have more than one rail route between New York and Chicago, but the truth is that all the routes that exist were barely able, even under federal control, to handle the traffic offered. Nor is a circuitous route necessarily a wasteful route. As a matter of fact, the circuitous routes from New England to the west through Canada are most valuable to New England shippers, who cling tenaciously to them because they are the cheapest routes available. It not infrequently happens that the cheapest and most expeditious route between two points is a circuitous route, and such routes are often selected by shippers because of the saving effected.

IS TRAFFIC DECLINING?

One of the most unsound and most dangerous thoughts expressed in your statement is that railroad traffic is static or declining. The danger of this novel and startling conclusion lies in the fact that if you are right we

should provide no additional railroad facilities, at least in substantial amount. It is strange that your theory should be announced at a time when the whole nation is crying for additional cars and additional locomotives, and at a time when the best information available points to a serious car shortage in the near future.

Your error lies in the fact that you have relied very largely on the year 1921 for comparative purposes. That was a sub-normal year, a year of unfavorable business conditions. The subject with which you are dealing is too large and too important to pick out one depressed year and compare it with certain prosperous years which preceded it. Commissioner Eastman said in a recent dissenting opinion (77 I. C. C. 140):

"The majority are impressed by the fact that in the two years which have elapsed since our original denial of the supplemental application on June 4, 1920, no independent steamship service has been established. * * * They fail to bear in mind that these two years of acute business depression, in which all carriers have suffered from loss of traffic and establishment of any new enterprise has been fraught with great difficulty. Pessimism born of experience in such a period ought not to govern the future."

Yet your pessimistic conclusion that traffic is bound to decline is based almost wholly on the figures for the year 1921, one of the years of depression to which Commissioner Eastman refers.

The trend of the volume of traffic can be intelligently studied only by observing the figures for a substantial period. To take the years 1890, 1900, 1910, and 1920, as showing the trend by decades, is much more reliable than the method you have employed. The number of ton-miles of revenue freight handled in these four years is as follows:

1890	76,207,047,298
1900	141,599,157,270
1910	255,016,910,451
1920	413,698,748,713

The figures for 1890 and 1900 include switching and terminal companies, which are not included in the figures for 1910 and 1920.

Do you find anything in these figures to support your conclusion that freight traffic is static or declining and that it is unwise and wasteful to provide additional railroad facilities? Is the trend downward, or "static"?

Similar figures showing the trend of passenger traffic are as follows, the figures indicating the number of passenger-miles:

1890	11,847,785,617
1900	16,039,007,217
1910	32,338,496,329
1920	47,369,905,886

Those figures do not indicate a "pretty regular diminution of revenue passenger miles," as suggested on page 1293 of your statement; nor do they support your statement on page 1301 that "in spite of verbose excuses, 1921

must be considered a fair test of what corporate management can do in rail transportation." The plain truth is that 1921 is a most unfair test.

The freight traffic in 1920 was more than 440 per cent greater than in 1890, and the passenger traffic was more than 300 per cent greater. Not only do these figures refute your conclusion that traffic is declining, but they clearly explain why our mutual friend Dr. Lorenz is unable, as explained in your paper, to agree with your conclusion on this important matter.

The investment in road and equipment has not kept pace with the increased traffic. The figures are as follows:

1890	\$7,755,387,381
1900	10,263,313,400
1910	14,557,816,009
1920	19,849,451,638

The investment figure for 1920 is 156 per cent greater than the corresponding figure for 1890, while the volume of freight traffic handled was 440 per cent greater. This indicates a more and more intensive use of existing equipment, and the figures do not by any means indicate that there have been, generally speaking, "wasteful" and "extravagant" investments in railroad facilities.

Your pessimistic conclusion with respect to the future volume of traffic is based in part on your prediction that "coal tonnage should, and will, diminish and not increase." If you are talking about the far distant future I do not feel qualified to debate with you. If you are talking about the present and the immediate future the only figures available do not support you, but show, on the contrary, a steady and healthy increase. The production of anthracite and bituminous coal by calendar years, in gross tons, has been as follows:

	Anthracite	Bituminous
1900	51,221,353	189,567,957
1901	60,242,560	201,632,276
1902	36,940,710	232,336,468
1903	66,613,454	252,454,775
1904	65,318,490	248,803,294
1905	69,339,152	281,306,058
1906	63,645,010	306,138,274
1907	76,432,421	352,463,493
1908	74,347,102	296,941,021
1909	64,619,865	339,057,372
1910	75,433,246	372,420,663
1911	80,771,488	362,417,017
1912	75,322,855	401,879,448
1913	81,718,680	427,174,372
1914	81,090,631	377,414,259
1915	79,459,876	395,200,380
1916	78,195,083	448,678,288
1917	88,939,117	492,620,146
1918	88,237,575	517,308,768
1919	78,501,931	408,908,482
1920	80,032,175	496,975,892

The limited supply of anthracite available, and its use largely as a domestic fuel, make it not unreasonable to assume that there will not be a substantial increase in anthracite production, and the figures for recent years seem to support that conclusion, but bituminous coal, which is far more important than anthracite to most of the railroads, shows a very substantial increase which is likely to continue over a long period of years. I do not discount the importance of your suggestion that hydro-electric power and the production of electric power at the coal mines may in years to come tend to limit the quantity of coal shipped by rail, but a transformation of this kind can not be brought about over night, and while you are speculating about what may happen in the remote future the railroad managements must provide locomotives, cars and terminals with which to handle the ever-increasing volume of coal tonnage. It is a condition, and not a theory that confronts the railroad managements of today, and whatever the theory may be, the fact is that the locomotives and cars now available fall short of meeting the current demands for transportation.

Even if the coal tonnage does decline, which is most improbable so far as the near future is concerned, it is not unlikely that we shall still have some use for our railroads. The increase in the total output of manufactures in this country has been as follows:

1900	\$11,407,000,000
1910	20,672,000,000
1920	62,500,000,000

Of course the railroads haul most of the raw materials to the factories, and haul most of the finished products to the consuming markets. The above figures mean, therefore, a remarkable growth in railroad tonnage. Do you think that manufacturing in the United States is apt to decline in coming years?

The total production of grain in the United States in bushels has been as follows, the figures being taken from the Agricultural Yearbook for 1920:

1870	1,629,028,000
1890	2,518,261,000
1910	4,934,049,000
1920	5,830,681,000

Grain, as you know, is one of the most important and most profitable classes of freight handled by American railroads. You will observe that the total volume has more than doubled since 1890. Do you predict a decline in farming in the United States, or do these figures indicate that a decline is in progress?

Then, too, the average haul is increasing. In 1900 the average haul was about 182 miles; in 1911, about 258 miles, and in 1921, 326 miles. Increase in the average length of haul coupled with an increase in the number of tons handled means more locomotives, more cars, more and larger terminals, and a general expansion of the whole transportation machine.

UNITS OF TRAFFIC PER UNIT OF INVESTMENT.

Your statement on page 1297 to the effect that "revenue ton miles per \$100 of investment for the past five years was nearly static" is apt to give a false impression. Here again you have fallen into the error of stressing the period following the war when the whole country has been trying to get on its feet. I think your presentation on this point would have been fairer if you had shown the figures as far back as the year 1890, instead of using only a part of the table shown on page 227 of the report of the Joint Commission of Agricultural Inquiry. The figures by five-year periods are as follows:

	Units of Traffic per \$100 of Investment	
	Ton-miles	Passenger-miles
1890.....	983	153
1895.....	980	157
1900.....	1380	156
1905.....	1560	199
1910.....	1752	222
1915.....	1589	186
1920.....	2085	239

These figures give an impression quite different from that given in your statement. The truth is that the railroads of this country handled more than twice as much freight traffic and 55 per cent more passenger traffic per unit of investment in 1920 than in 1890, and the figures show a steady improvement in this respect throughout the thirty-year period with the single exception of the period following the war, upon which you exclusively rely for the conclusion which you reach. It is good to know that Dr. Lorenz disagrees with you on this point also.

It is true that the cost of transportation has increased, but you know quite well that these increases in cost have been almost entirely beyond the control of the carriers.* The increase in transportation costs has not been disproportionately great. From January, 1916, to August, 1920, freight rates were increased somewhat more than 100 per cent. During the same period farm prices increased well over 200 per cent. In 1900 the freight revenue of Class I roads constituted 9.2 per cent of the value of the manufacturers; in 1920 it was 6.9 per cent.

TRANSPORTATION BY AUTOMOBILE.

Your study of the tremendous growth in the automobile industry leads you to the conclusion that the railroads are falling behind, and you at least suggest that the time is rapidly approaching when there will not be much left for the railroads to do. I have no desire to discount the importance of the automobile, whose development constitutes one of the most romantic chapters in the history of American industry.

To assume that the automobiles are hurting the railroads because you

*One of the largest items in increased cost is wages. I do not desire at this time to enter upon a discussion of the railroad labor problem, but will simply say that figures recently obtained from the Department of Labor show quite conclusively that railroad labor as a whole is not overpaid compared with wages in analogous trades.

and some of your friends now and then take a trip to the White Mountains by automobile seems to me, with all respect, to take a very narrow view of the matter. The automobile in which you ride to the White Mountains probably was shipped by freight (at first class rates) from Detroit to Boston, paying much more revenue to the railroads than your combined passenger fares would have aggregated. The tires with which your automobile are equipped were shipped by rail to the point of assembly, or to Boston. Your gasoline moves to Boston by rail. Lumber and other material used in building automobile factories and garages moves by rail. All the raw material moving into the automobile factories, including coal, moves by rail. Your hardware factories in New England are constantly shipping auto parts to Detroit by rail. The general manager of the National Automobile Chamber of Commerce estimates that the automobile carload freight in 1922 was approximately 400,000 cars. In October, 1922, the automobile industry shipped 26,980 carloads of freight, as compared with 17,808 cars in October, 1921. You and your friends will have to make a good many trips by auto to the White Mountains to offset that tremendous volume of freight. The truth is that there has been no industry developed in this country in recent years which has so swelled the volume of railroad freight and railroad earnings as the automobile industry.

You mention the quantity of freight moved by automobile trucks. It is estimated that the motor truck ton mileage is 6,480,000,000 per annum. In 1920 the railroad ton mileage was 413,698,000,000. In other words, the truck ton-miles were about 1.5 per cent of the railroad ton-miles. And most of the truck tonnage was short-haul business, of which you have so much in New England, which has long been known to be relatively unremunerative to the railroads. It is a good thing that they lost most of it.

In this connection we should not overlook the point, so effectively brought out by Mr. Gerrit Fort, that it seems to be our present policy to provide public highways for the trucks over which they can haul freight without paying anything for the use of the roadbed except a nominal sum expended for licenses, whereas the railroad highway must be built and maintained by private funds and at the expense of the railroads. This is not fair competition. The trucks should be required to pay a reasonable part of the expense of maintaining the roads over which they run. Not only do we require the railroads to pay these expenses but we tax them very heavily. I was much impressed with this part of your article, which shows that the taxes paid by the railroads for two years would pay the entire cost of the Panama Canal.

INEFFICIENCY AND MISMANAGEMENT.

You speak rather disparagingly of the railroad managements as "corporation shells." You say that the boards of directors "can not function as efficient factors" and that the railroads seem to be "without fact-facing, constructive statesmen among their managers." You say that "in organization and personnel they are poorly equipped."

Coming from one of your position and experience this seems like a very serious indictment, and it is unfortunate that it is not supported by facts. It may be true that the "statesmen" to be found among railroad managements are not more numerous than in other lines of industry, but are they

less numerous? Is it your opinion that we have in the steel business, or the shoe business or the coal business, men who rank higher as capable executives than Mr. Rea, Mr. A. H. Smith, Mr. Daniel Willard, Mr. Markham, Judge Lovett, or Mr. Kruttschnitt? I think you will go a long distance before you will find in any industry a group of executives of greater ability or broader vision than the executives of American railroads.

And the question whether the railroads are efficient or inefficient must be decided, not on the basis of loose generalizations, but upon the results achieved. For the first seven months of 1922 the railroads handled 35,828,000,000 more net ton miles of freight with 41,270,000 less freight train miles than during the same period in 1914. For the year 1920 the record performance of 447,278,000,000* ton miles was achieved with 10,100,000,000 less train miles than were required to handle 440,000,000,000 ton miles in 1918, when the railroads were operated, not by wasteful, inefficient and incompetent private managers, but by the government of the United States. The car loadings for December represent the highest December period in the history of our railroads. These figures point to efficiency, and not to inefficiency.

THE INTERSTATE COMMERCE COMMISSION A BUREAUCRACY.

Your reference to the Interstate Commerce Commission as "a huge bureaucracy in Washington" is unwarranted and unfair. You say that the Commission is "unadapted to the performance of many of the duties now imposed upon it," and that it is "increasingly inefficient." These unjust and unfair accusations would be less apt to have a harmful effect did they not come from one occupying such a high position, and formerly a member of the Commission. I challenge you to name any government bureau or department in this or any other country which is conducted with greater efficiency than the Interstate Commerce Commission. The word "bureaucratic" connotes a narrow and rigid routine, whereas you know full well that there is no judicial or quasi-judicial tribunal in the country where matters are more fairly and openly considered, or where a more honest attempt is made to arrive at the real equities of a case, than in the Commission. You know full well that matters are not decided there by rule of thumb, or by a process of routine, but that all important matters are decided in conference and with the fullest possible discussion among the members of the Commission. It has more important problems to decide than any other administrative body in the country, and it is the best judgment of those in close touch with the Commission that it is performing its task efficiently, honestly and intelligently.

I shall not undertake to discuss the remaining points in your interesting and valuable paper, with some of which I am in full accord.

For the conclusions reached in your paper I would substitute the following:

1. All the statistics available point to a steady growth and expansion in America's industry and commerce, with an ever increasing volume of traffic for the railroads.

*These figures are from Donald D. Conn, who was Chief of the Transportation Division of the Joint Commission of Agricultural Inquiry. They apparently include switching and terminal companies.

2. The railroads are industries, second in importance only to agriculture, and increasing the economic value of commodities quite as much as other industries.

3. So long as the transportation industry is financed by private capital and managed by private corporations, and so long as the earnings and many of the expenses are limited or fixed by government authority, those who invest their capital in the railroads are entitled to a return thereon fairly commensurate with the return on private capital available to investors in other industries.

4. Not only are you entirely wrong in your statement that the return of three and a fraction per cent earned by the railroads in 1921 indicates the best that they are able to do under private management, but as this is being written figures are being published showing that the railroads are now earning nearly the full return contemplated by law.

5. This great Nation needs an ever expanding transportation system. Even today, as this is being written, we are threatened with a car shortage and the transportation facilities generally are, if anything, less than adequate to meet the Nation's reasonable requirements.

6. Statistics prove conclusively that the railroads are being operated with constantly increasing efficiency.

7. Increase in the cost of transportation has been relatively less than the increase in the cost of most basic commodities.

8. Our policy for the future should be to recognize the indispensability of the railroads to American industry, to see that the railroads do not lag behind industry in their growth and development, to provide necessary supplies of new capital required for the reasonable expansion of railroad facilities; and to provide earnings for the carriers sufficient in amount to insure their growth and development as efficient national transportation agencies.

I have written at some length because I believe in trying to get at the truth, and nothing helps so much in that direction as frank discussion.

Since your statement to which this is a reply was publicly made I shall take the liberty of making public this reply.

With kind personal regards.

Very truly yours,

WILBUR LA ROE, JR.



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